

Executive Summary

“Alcohol, No Ordinary Commodity: Tax Policy Implications for Thailand”

By

Pongsak Hoontrakul^π

Sasin of Chulalongkorn University, Bangkok

And

Bunchon Songsumphan

Excise Department, Ministry of Finance, Thailand

Current Draft: June 29, 09

1. Alcohol is *no* ordinary commodity. Its industry has long history with political economic implications. It pays significant economic role especially government revenues, which accounts for 32.4% of the total excise tax revenues. On the other hand, if consume excessively and regularly, it is **addictive substance** that can cause brain disease beyond a reasonable doubt. It is estimated for every 1 THB tax collect, another 2 THB is spent for public health and opportunity cost. When this market fails to correct **negative externality** generating from alcohol, the government is justified to intervene, regulate and tax to redistribute for welfare enhancement.

2. Currently the obsolete alcohol tax structure *distorts* market and *encourages* people to consume cheap beverage with high alcohol content. The more government hikes tax rate, the more people consume more alcohol per capital at alarming rate. People, especially poor and rural will *trade down* their drinking behavior for cheaper, but higher alcoholic content and more harmful – from premium fermented beer to economy beer and from low to high degree distilled white spirit.

3. The current excise tax collection has potential leakage more than THB 30 billion (bn) per year. Three main causes are 1) the distortion in existing alcohol tax structure, 2) smuggling, and 3) improper controlling systems.

4. For illicit trade, namely in whisky case, the under-invoicing and smuggling are major source potential leakage of imported liquors. The higher tax rate is, the larger incentive of smuggling and corruption will be. The difference in taxes between Thai and neighbor countries will amplify the incentive as evidenced by converging tariff in AFTA and importation. Yet, the choice of illegal production is white spirits.

^π The contents of this paper in part or in whole are entirely those of the authors and do not represent the views and opinions of Sasin of Chulalongkorn University, Ministry of Finance and any organization associated with the authors. Comments are welcome. All correspondence is directed to Pongsak Hoontrakul, Senior Research Fellow, Sasin-GIBA, Chulalongkorn University, Sasa Patasala Building, 8th floor, Soi Chulalongkorn 12 (2), Phayathai Road, Bangkok 10330, Thailand. Private Tel. (662) 883 5548; Fax (662) 883 5547; Email: Pongsak@Hoontrakul.com URL : www.Pongsak.Hoontrakul.com

5. The solution to above issues to narrow fiscal gap is to tax proportional to alcoholic consumption. With the first best solution of the alcohol tax amendment as suggested on Fig 34, over THB 20 bn more tax may be anticipated. Alternatively, at least THB 13bn more tax collection is possible per annum if synthetic volume base tax rate on beer as the second best solution is used only under *ministerial directive*.

6. The selling liquor licenses have long been freely given until Thailand has one liquor license for every 120 people – kids and elders. More importantly, because the selling licenses lacks of criteria, there is no proper feedback on tax collection

7. Advance information technology with Turkey example is cited as one of the best way to tackle the total un-paid duty of alcoholic beverages consumption and related taxes that may be foregone as much as THB10 bn per year. Beside these tax trail databases provide timely, accurate and valuable data and information. Research based policy decision can be done effectively for *differential* measures – to increase social welfare as well. Some of best practices according to WHO 2003 in mixed alcohol reduction policy can be implemented with little or no cost are 1) alcohol content based tax, 2) outlets and licensing density restriction, 3) government restrictive of retail like restaurant, pub & bar.